

MEETING AC.08:1112
DATE 23.02.11

South Somerset District Council

Draft Minutes of a meeting of the **Audit Committee** held in the Main Committee Room, Council Offices, Brympton Way, Yeovil on **Thursday, 23rd February 2012.**

(10.00 a.m. – 11.55 a.m.)

Present:

Members: Derek Yeomans (in the Chair)

John Calvert	Ian Martin
John Dyke	John Richardson
Marcus Fysh	Colin Winder
Tony Lock	

Also Present:

Ric Pallister

Officers:

Donna Parham	Assistant Director (Finance & Corporate Services)
Amanda Card	Finance Manager
Andrew Ellins	Audit Manager – South West Audit Partnership
Andrew Blackburn	Committee Administrator

Also Present:

Mark Pickering	Director, Arlingclose Limited
Peter Lappin	Audit Manager, Audit Commission

68. Minutes (Agenda item 1)

The minutes of the meeting held on the 26th January 2012, copies of which had been circulated, were taken as read and, having been approved as a correct record, were signed by the Chairman.

69. Apologies for Absence (Agenda item 2)

There were no apologies for absence.

70. Declarations of Interest (Agenda item 3)

Cllr. John Calvert referred to agenda item 5 regarding the Treasury Management Performance to December 2011 and item 7 regarding the Treasury Management Strategy Statement and Investment Strategy 2012/13 and declared a personal interest as his son worked for one of the banks on the counterparty list which may be used by the Council for specified investments.

71. Public Question Time (Agenda item 4)

No questions or comments were raised by members of the public.

72. Treasury Management Presentation

Prior to the Committee discussing the treasury management items on the agenda, members welcomed Mark Pickering, Director of Arlingclose Ltd. (the Council's Treasury Management Advisers), who had been invited to the meeting to give a presentation on current issues.

Mark Pickering referred to the last time he had attended the Committee when he looked at the key principles of treasury management. During this presentation he expanded on credit risk indicators and managing credit risk. He also referred to interest rates, which were anticipated to remain low for a longer period of time. In conclusion, members were updated on the Council's current investments and their performance when it was noted that the Council had done quite well and achieved a higher than average return for a less than average risk.

During his presentation, Mark Pickering answered a number of questions raised by members and, in conclusion, the Chairman thanked him for his very informative presentation.

73. Treasury Management Performance to December 2011 (Agenda item 5)

The Assistant Director (Finance and Corporate Services) summarised the agenda report and the Committee reviewed the treasury management activity and the performance against the Prudential Indicators for the nine months ended 31st December 2011.

The Assistant Director (Finance and Corporate Services), in referring to the Council's investment portfolio set out in the agenda report remarked that following the downgrading of the majority of the banks on the lending list the Council was endeavouring to become less reliant on the banking sector for the time being and diversify into using local authorities. It was noted that although the rates were not as good, the risks were low. In referring to the returns on investments up to 31st December 2011, the Assistant Director indicated that the figures showed that the Council was earning just over 2% compared with the benchmark rate of return of 0.61%. She further referred to the Council having sold some of its Eurobonds on the advice of Arlingclose and reducing exposure to the European Investment Bank. She referred to the main issue with the strategy being where to place investments and informed members of the impact that may have on the next financial year's estimates.

The Committee, having considered the update on treasury management activity was content to note the report.

- RESOLVED:**
- (1) that the treasury management activity for the nine month period ended 31st December 2011 be noted;
 - (2) that the position of the individual Prudential Indicators for the nine month period ended 31st December 2011 be noted.

*(Karen Gubbins, Principal Accountant – Exchequer – 01935 462456)
(karen.gubbins@southsomerset.gov.uk)*

74. Prudential Indicators regarding External Debt (Agenda Item 6)

The Assistant Director (Finance and Corporate Services) summarised the agenda report, which informed members of the review of the Prudential Indicators relating to the Authorised Limit for External Debt (Prudential Indicator 8) and the Operational Boundary for External Debt (Prudential Indicator 9) and explained the reasons for needing to amend the split between borrowing and other long term liabilities, details of which were set out in the agenda report.

It was noted that the Assistant Director (Finance and Corporate Services) had delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any movement between these separate limits would, however, need to be reported to the next Council meeting. The report was being brought before Audit Committee as the limits were originally approved as part of the annual Treasury Strategy.

The Committee was asked to note the details of the amended split.

RESOLVED: that the Committee note the amended split between borrowing and other long term liabilities whilst still maintaining the overall total for the Authorised Limit for External Debt and the Operational Boundary for External Debt, as follows:-

The Authorised Limit for External Debt (Prudential Indicator 8)

Borrowing	£11,000,000
Other long term liabilities	£1,000,000
TOTAL	£12,000,000

The Operational Boundary for External Debt (Prudential Indicator 9)

Borrowing	£9,200,000
Other long term liabilities	£800,000
TOTAL	£10,000,000

*(Karen Gubbins, Principal Accountant – Exchequer – 01935 462456)
(karen.gubbins@southsomerset.gov.uk)*

75. Treasury Management Strategy Statement and Investment Strategy 2012/13 (Agenda item 7)

The Assistant Director (Finance and Corporate Services) referred to the agenda report, which asked members to review and recommend to full Council that the Treasury Management Strategy Statement and Investment Strategy 2012/13 be approved.

The Assistant Director (Finance and Corporate Services) referred to the recommended changes to the strategy for 2012/13 being set out in the agenda report. She highlighted that the principal amendments were in relation to the individual institutions to whom the authority was prepared to lend. A reduction in the minimum long term credit rating to A- or equivalent from the A+ minimum adopted for 2011/12 was recommended, the reasons for which were set out in the agenda report. The rating for non-UK sovereigns would remain at AA+ or equivalent. She further indicated that in implementing the strategy, regular updates were received from Arlingclose and their advice taken into account when making investment decisions.

The Assistant Director (Finance and Corporate Services) circulated to members at the meeting a revised counterparty list as an example to show the restricted number of counterparties that the authority would be able to use if members preferred to accept a

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more risk averse strategy. This would also mean that there would be less diversification within the Council's portfolio when such diversification was desirable to protect the capital sum.

During the ensuing discussion, a member enquired whether there were other investment avenues outside of the banking institutions that could be used whilst avoiding stocks and shares. The Committee was advised that although there were other investment opportunities they may not necessarily be appropriate bearing in mind that the authority was dealing with public funds. Reference was also made to the Council's practice being to make ethically based investments and trying to keep to financial institutions. The Chairman also reiterated the need to have security when placing the Council's investments.

Having considered the details contained within the agenda report and the additional information given at the meeting, the Committee indicated that it was content to recommend the approval of the Treasury Management Strategy Statement and Investment Strategy for 2012/13 to full Council.

RESOLVED: that Council be recommended to approve the Treasury Management Strategy Statement and Investment Strategy for 2012/13.

*(Karen Gubbins, Principal Accountant – Exchequer – 01935 462456)
(karen.gubbins@southsomerset.gov.uk)*

76. 2011/12 Internal Audit Quarterly Update Report (Agenda item 8)

The Audit Manager, South West Audit Partnership (SWAP), summarised the agenda report, which provided members with an update on internal audit activity for quarter 3.

In response to a question from a member, the Committee was reminded that a further update regarding Wincanton Community Sports Centre, which was discussed at the last meeting, would be submitted to the Committee's meeting in September 2012 unless the follow up audit resulted in a satisfactory outcome.

The Committee was content to note the quarter 3 report of the South West Audit Partnership.

RESOLVED: that the Quarter 3 Report 2011/12 of the South West Audit Partnership be noted and accepted.

*(Andrew Ellins, Audit Manager – 01935 462378)
(andrew.ellins@southwestaudit.gov.uk)*

77. Internal Audit Plan 2012-13 (Agenda item 9)

The Audit Manager, South West Audit Partnership (SWAP), summarised the agenda report, which informed members of the details of the audits planned for the next financial year.

The Audit Manager highlighted that SWAP had introduced a new category of fraud/governance audits and set up a specialised fraud team who would undertake proactive fraud reviews and provide a reactive service should the need arise. He referred to the audits planned to be carried out in the next financial year being set out in the agenda report. He also mentioned that the total number of audit days planned for 2012-13 was 419 compared with 459 in 2011/12. The reduction had been requested in order to reduce the cost of the internal audit service as part of the Council's budget cuts.

In responding to members' questions and comments, the Assistant Director (Finance and Corporate Services) confirmed that even though the management of Goldenstones had been transferred to Leisure East Devon, the Council was still entitled to require internal audits of the service.

Reference was made to the reduction in audit days from the previous year and the Assistant Director (Finance and Corporate Services) and Audit Manager explained the basis on which the audit plan was drawn up and it was confirmed that SWAP should be able to deal with the workload within the audit plan.

The Committee was content to approve the Internal Audit Plan 2012/13.

RESOLVED: that the Internal Audit Plan for 2012/13 be approved.

(Andrew Ellins, Audit Manager – 01935 462378)
(andrew.ellins@southwestaudit.gov.uk)

78. Internal Audit Charter – Annual Review (Agenda item 10)

The Audit Manager, South West Audit Partnership, summarised the agenda report and asked the Committee to review and endorse the Internal Audit Charter as attached to the agenda. It was noted that there were minor changes since the Charter was last reviewed by the Audit Committee at its meeting on 24th February 2011.

RESOLVED: that the Internal Audit Charter as set out on pages 68-70 of the agenda be approved.

(Andrew Ellins, Audit Manager – 01935 462378)
(andrew.ellins@southwestaudit.gov.uk)

79. Certification of Claims and Returns: Annual Report (Agenda item 11)

The Chairman welcomed the Audit Manager from the Audit Commission who summarised the Commission's Annual Report on their findings arising from the certification of the Council's 2010/11 claims/returns to Government grant paying departments, a copy of which was attached to the agenda. Those claims/returns related to the Housing and Council Tax Benefit Scheme, Disabled Facilities Grants and the National Non-Domestic Rates (NNDR) return.

The Audit Manager further explained for members' information the issues that had arisen during the 2010/11 certification work, details of which were set out within the Commission's report attached to the agenda. He also referred to the Council having implemented the recommendations arising from the previous year's certification work. The Audit Manager further mentioned that the Audit Commission's fee for the certification work amounted to £28,387, which was £5,000 less than estimated.

The Assistant Director (Finance and Corporate Services) referred to the certification returns being complex and thanked the Audit Manager and Principal Auditor for working together with the Council's officers to ensure that the claims were correct.

In response to questions from members, the Audit Manager updated the Committee on the future of the Audit Commission. He indicated that the abolition of the Commission would be subject to legislation. In the meantime, the external audits, which were currently provided by the in-house team of the Audit Commission, would be transferred to the private sector.

External audit firms had submitted tenders for this work, which had been divided into 10 geographical “lots” in England. South Somerset was included in the South West “lot”. The Audit Manager explained how the tendering procedure would take place and the basis on which contracts would be awarded. He indicated that a public announcement would be made on the 6th March 2012. It was anticipated that new auditors would be appointed from 1st September 2012. He further indicated that the DCLG consultation paper envisaged that when the Audit Commission was abolished, local authorities would be able to appoint their own external auditors. In response to the comment of a member, the Assistant Director (Finance and Corporate Services) remarked that she anticipated that the new procedures would initially result in a saving for the authority but would have to wait to see what transpired in future years.

RESOLVED: that the content of the Audit Commission’s Certification of Claims and Returns: Annual Report 2010/11 be noted.

80. Annual Audit Plan (Agenda item 12)

Reference was made to the agenda report, which introduced the Audit Commission’s Annual Audit Plan for 2011/12.

The Audit Manager highlighted that the Audit Plan set out the different responsibilities between the auditors and the audited body, i.e. the Council. He also referred to having considered whether there were any significant risks that were relevant to the audit of the accounting statements and had concluded that there were none currently. There would, however, be a need to give specific attention this year to evaluating the management controls the Council had in place to recognise and value heritage assets. The Audit Manager also referred to the fees for the audit being set out in the Annual Audit Plan. The Audit Commission had achieved internal efficiencies and it planned to issue a rebate of 8% of the audit fee.

The Committee was content to note the contents of Annual Audit Plan.

RESOLVED: that the contents of the Annual Audit Plan for 2011/12 as attached to the agenda be noted.

*(Donna Parham, Assistant Director (Finance and Corporate Services) – 01935 462225)
(donna.parham@southsomerset.gov.uk)*

81. Date of Next Meeting (Agenda item 13)

Members noted that the next meeting would be held on Thursday, 22nd March 2012 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.

NOTED

*(Andrew Blackburn, Committee Administrator – 01460 260441)
(andrew.blackburn@southsomerset.gov.uk)*

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Chairman